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Report Highlights:

Saudi poultry meat production mainly broiler meat is forecast to reach 472,000 metric tons (mt) in 2003, an increase of over 6 percent compared to the expected 2002 level.

In 2002, the Kingdom's poultry meat imports are forecast at 390,000 metric tons, down 2.5 percent from the 2001 level of 400,000 mt due to the temporary ban imposed on French chicken imports in late July 2002. The outlook for 2003 suggests a marginal decline of about 5,000 metric tons compared to this year's expected import level.

Includes PSD changes: Yes
Includes Trade Matrix: No
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POULTRY PRODUCTION

In 2003, Saudi poultry meat production mainly broiler meat is forecast to reach 472,000 metric tons (mt), an increase of over 6 percent compared to the expected 2002 level per data provided by the Saudi Ministry of Agriculture & Water (MAW) and analysis done in the ATO office. According to MAW and poultry farmers, the expected increase is based on the following factors: a) the minimized problem with New Castle disease which wiped out several small poultry farms in 2000/2001 and reduced production of the larger farms and planned expansion of existing producers and the expected operation of newly licensed farms.

PSD TABLE: POULTRY MEAT, CHICKEN -16 WKS (1,000 metric tons)

PSD Table						
Country:	Saudi Arabia					
Commodity:	Plty, Meat, Chicken -16 wks					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	50	0	50	0	49	0
Production	419	424	430	445	0	472
Whole, Imports	312	350	315	340	0	345
Parts, Imports	35	50	34	50	0	40
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	347	400	349	390	0	385
TOTAL SUPPLY	816	824	829	835	49	857
Whole, Exports	20	20	20	20	0	20
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	20	20	20	20	0	20
Human Consumption	741	799	755	810	0	832
Other Use, Losses	5	5	5	5	0	5
Total Dom. Consumption	746	804	760	815	0	837
TOTAL Use	766	824	780	835	0	857
Ending Stocks	50	0	49	0	49	0
TOTAL DISTRIBUTION	816	824	829	835	49	857
Calendar Yr. Imp. from U.S.	1	2	2	2	2	2

Note: beginning and ending stock levels are revised downward to zero since there are no government stock holding programs in the Kingdom.

To minimize future production problems due to poultry diseases such as New Castle, the MAW plans to ban transportation of live chickens from one region to another in December 2002. According to the MAW, the scheme not only prevents transfer of diseases from affected regions to other parts of the Kingdom, but will also reduce the high chicken mortality rate caused during transportation of live chickens from one region to another. The government is also requesting poultry farms to establish slaughtering houses near their farms. The new policy when implemented will probably force small farmers, who do not have the resources and the know-how to establish and run slaughtering and cold storage facilities, to work out some kind of cooperation agreement with nearby large farms.

Local production increases remain tied to the generous financial, technical and other assistance it receives from the government to compensate for the higher local production costs ranging from \$1,090 to \$1,380 per metric. To lessen the effect of the higher production costs caused by various factors such as heavy dependance on imported feed, medicine, as well as high energy costs (due to the requirement for year-around temperature control), the government maintains a program which pays 30 percent of the cost on selected poultry equipment if they are imported. If purchased locally, no subsidy is granted. Also, it provides a subsidy of \$42.67 (160 Saudi Riyals) per metric ton for imported corn and soybean meal. The corn subsidy is based on U.S. number 2 yellow corn, which provides a great incentive for Saudi importers to buy U.S. corn.

The grow-out period for broilers in the Kingdom ranges between 35 and 42 days. Although there is no data available indicating the average weight gain per day, the average live weight of broilers when marketed is 1.40 kg and it takes about 1.8 kg of feed to produce a marketable chicken.

Despite the increased production capacity estimated at more than 600,000 metric tons with a total cost of over \$5.3 billion, local production is not expected to show a drastic increase because of continued fierce competition from imported poultry meat. Usually, the production costs of local chicken prices have been considerably higher than the C&F prices of imported frozen chickens. Per data provided by the MAW, the average local production costs per metric ton of broiler meat in CY 2000 were \$1,090, \$1,280 and \$1,380 for large, medium and small farms respectively. This is in contrast to the June 2002 C&F Saudi port prices for Brazilian frozen chicken meat which ranged from \$800 to \$900 per metric ton depending on brand and quantities imported.

CONSUMPTION

Chicken meat continues to be the most competitive source of animal protein in the Kingdom. Our recent survey of the Riyadh meat market revealed that a kilo of imported whole frozen chicken was sold for about \$1.73 compare to \$4.30 for lamb meat and \$5.33 for beef. The per capita consumption of poultry meat in 2001 was estimated at about 38 kg. Consumption of chicken meat decreases significantly during Ramadan (the Muslim fasting month-this year starts November 7) and during summer which starts from the second week of June up to the first week of September when millions of Saudis and expatriates depart the Kingdom for vacation. Overall, most consumers in Saudi Arabia

prefer 1,000 to 1,100 gram birds while hotels and catering companies prefer 900 to 1,000 grams to serve whole, in halves or in quarters. Traditional restaurants sell grilled whole chicken on average for \$2.67-\$3.20 regardless of size (whether 900 or 1,400 gram birds). For this reason, they prefer to buy a lighter weight bird at the lowest possible price. Chicken parts are consumed by catering companies and institutional customers not by household consumers. The demand for chicken parts decreases drastically when the prices of whole chickens become more competitive.

RECENT SAUDI ARABIAN POULTRY IMPORT REGULATIONS

1. Ban on Stercoraceous Hormones: On July 25, 2002, the Saudi Ministry of Commerce (MOC) imposed an immediate temporary ban on imports of poultry and poultry products from the 15 EU countries because of the alleged reports that EU poultry producers use stercoraceous hormones in poultry feed which is harmful to humans. The MOC decision was reportedly based on EU commission's recent report that indicated that products contaminated with the hormones could cause cancer and impotence in consumers. According to Arab News, a leading Saudi English language daily newspaper, the MOC recently destroyed 300 kg of broiler meat imported from a European country after it tested positive for the banned hormone. Even though there is no official data on the quantity of French chicken that arrived at Saudi ports after July 25, importers estimate that the Saudi authorities are holding about 200 metric tons at Jeddah and Dammam ports. The chicken meat was apparently on the sea when the ban was issued. According to contacts at the Saudi labs, the Kingdom does not have standards for hormones used in animal feed as well as the capability and the know-how to test for them. Before the ban was issued, MOC was working with French authorities to get its laboratory technicians trained on how to test for growth hormones in beef and poultry meat.

The Saudi ban will hurt France more than any other EU country impacted (which are not significant suppliers) since it has been the number two supplier of poultry products to Saudi Arabia in recent years preceded only by Brazil. Doux chicken which accounts for the majority of French frozen poultry exports to Saudi Arabia is the most affected by the ban. The firm depends on the Saudi market for a large percentage of its chicken meat exports to the Gulf region. In CY 2001, France exported 107,175 metric tons or about 27 percent of the total Saudi poultry imports. In June 2002, the MOC banned imports of frozen chicken from two Brazilian companies that produce Emerald and Minu brands due to reported contamination with antibiotics unfit for human consumption.

2. Ban on Animal Ruminants in Poultry Feeding: The MOC still maintains its requirement that health certificates of all imported poultry and poultry products clearly indicate that the birds slaughtered had not been fed animal protein, animal fats, or animal by-products. The MOC, which implemented the requirement on March 25, 2001, says that the measure is necessary to prevent the entry of poultry meat considered unfit for human consumption due to feeding of animal ruminants.

SALMONELLA PROBLEM IN LOCALLY PRODUCED BROILER MEAT

In early August 2002, the Saudi Ministry of Commerce (MOC) implemented very vigorous testing requirements on poultry meat produced by a leading local producer after regular tests indicted the presence of a higher than normal level of salmonella contamination. According to reports in local

newspapers, laboratory tests conducted by the MOC labs discovered that more than one out of five samples tested positive for salmonella. None of the local newspapers mentioned the name of the firm since it has been a long-standing Saudi Government policy not to mention local companies by name when they are faced with food quality problems in order to preserve consumer confidence in locally produced products and to protect the long term interest of companies involved. The Saudi Government has a huge stake in the well-being of local poultry farms since it provides various financial subsidies for licensed producers. According to ATO confidential sources, the firm in question, produces about 120,000 mt of broiler meat annually, accounting for about 30 percent of the local broiler meat production. Despite the salmonella problem, the firm is still distributing its poultry meat across the Kingdom. Imported broiler meat containing more than 20 percent salmonella contamination is barred from entering the Kingdom. The meat is either destroyed locally or re-exported.

To help the firm control the salmonella problem, MOC and the Ministry of Agriculture and Water (MAW) have dispatched veterinarians and other experts to monitor the poultry farm and to find out the reasons for the contamination. The MOC has also asked the MAW, the Saudi Arabian Standards Organization (SASO), and the King Abdulaziz City for Science and Technology to work together to help the firm control the salmonella problem by using one of the available methods such as Tri Sodium Phosphate, Citric Acid, and Radiation treatments.

TRADE

General

Despite the various government subsidies provided to the local poultry industry, producers claim to have difficulty competing with imports. At most times during the year, locally-produced frozen broilers are more expensive than imported broilers. Local producers claim that Brazilian and French poultry exporters are subsidized by their governments and that they dump (under price) their frozen chickens in the Kingdom. The newly established Cooperative Society for Poultry Producers is engaged in a high profile lobbying effort to convince the Saudi Government to increase import duties on imported poultry meat which now stands at 20 percent or \$0.266 per kg which ever is higher. The organization is also active in a media campaign to discredit the quality of imported chickens claiming that they are below the established Saudi poultry specifications. The government has indicated its willingness to revisit the import tariff and to implement other control measures if the Cooperative Society could prove that imported chickens are under priced (dumped) and that they are below local standards.

Two main reasons explain the marketing difficulties of local producers:

(1). Higher Prices Compared to Imports:

Prices of locally produced frozen chickens are usually higher than those imported by at least 20 percent per kg. According to managers of some cold storage warehouses, sizeable quantities of stored local

chickens often expire before being marketed, resulting in a substantial loss to the producer. Most local firms discount the price of chicken about to expire in order to minimize losses. For instance, near expiry Al-Watania broilers weighing 700 to 1,400 grams are sometimes sold below prices of imported frozen chicken at various supermarkets and wholesalers.

(2) Perceived Inferior Quality of Locally Produced Chicken:

Even if locally produced chickens could match prices offered by imported chickens, many institutional customers (the largest users of imported frozen chickens) have indicated that they would keep on buying imported chickens particularly Brazilian broilers. They claim that locally produced frozen broilers as well as imported French broilers contain a high fat and moisture content which tends to cause significant shrinkage and makes the chickens look old when cooked on rotisseries.

Imports

In 2002, the Kingdom's poultry meat imports are forecast at 390,000 metric tons, down 2.5 percent from the 2001 level of 400,000 (based on data from major suppliers) due to the temporary ban imposed on French chicken imports in late July 2002. The outlook for 2003 suggests a marginal decline of about 5,000 metric tons compared to this year's expected import level as a result of the forecasted increase in local production.

The ban on French poultry imports imposed last month is expected to further increase the Brazilian poultry exports to Saudi Arabia this year. With more than 60 percent market share in recent years, Brazil has remained the leading supplier of frozen broilers to the Kingdom, followed by France and China (for deboned chicken). The United States has been a distant 4th.

Brazilian poultry exports to the Kingdom in 2001 reached 255,989 mt (an increase of 23 percent vs. 2000) while imports from France decreased from 113,327 mt in 2000 to 107,175 mt in 2001. In recent years, French exports have been declining significantly due mainly lack of price competitiveness despite the continued export subsidies they receive.

Poultry meat imports from China mostly deboned chicken increased from 18,475 mt in 2000 to 33,534 mt in 2001, an increase of about 82 percent resulted from the continued price competitiveness for deboned chicken compared to other suppliers. Chinese deboned chicken meat is used for Shawarmas, a Middle Eastern style popular sandwich which contains boneless chicken meat or beef mixed with pickles, lettuce and mayonnaise wrapped with pita bread. Shawarmas are now available in many U.S. cities with significant Middle Eastern populations. Poultry meat imports from the States in 2001 decreased by 70 percent compared to the 2000 level (2,109 mt in 2001 vs. 6,952 mt in 2000). The main factor for the huge decline in U.S. exports is the inability of American exporters to offer competitive priced poultry meat derived from poultry fed on a 100 percent vegetable protein diet.

Major Saudi poultry importers have told ATO/Riyadh that despite the ban on French poultry meat imports, they do not expect to face major problems in sourcing their requirements from Brazil at higher prices. Per information received from major importers on August 21, Brazilian exporters have already

increased their prices by \$50 per mt for August shipments compared to prices paid in July. A further increase of \$50 per mt is expected for September shipments. Traditionally, large Saudi imports contract with their long time suppliers at least a month in advance on quantities they plan to import each month. The parties negotiate and confirm prices at the time the consignments are ready for shipment. This practice is preferred to safeguard the interest of both parties in the highly volatile Saudi poultry market which is characterized as a highly price sensitive market.

Recent CIF Prices

According to major importers, the per metric ton C&F prices of Brazilian whole broilers meat (at Saudi ports) in June 2002 ranged between \$800 and \$1,000 depending on brands and quantities imported. While the prices for French chicken meat were between \$950 (TillySabco) and \$1,050 (Doux) per mt. There are several brands of Brazilian chicken meat in the market while there are only Doux (which account for the majority of French broiler meat exports) and TillySabco brands from France. The August prices of Brazilian frozen whole broilers meat is reportedly increased by \$50 reaching \$850 and 1,050 per metric ton due to the recent ban on French chicken. September prices are expected to further increase by \$50 per mt. If the ban on French chicken is not lifted in the next few weeks, the prices of Brazilian poultry meat are expected to reach up to \$1,200 by December 2002.

Poultry importers attribute the huge drop in the prices of Brazilian chicken meat in June mainly to the devaluation of the Brazilian currency last year, the over production of poultry meat in Brazil, and the reported production efficiency of large Brazilian producers which reduced production costs. Importers also have indicated that the lower whole chicken prices are reducing demand for chicken leg quarters as institutional customers that used to buy leg quarters are now buying whole chickens at very competitive prices.

Tariffs

The customs duty on imported chicken is 20 percent or SR 1.00 (\$0.267) per kilogram, whichever is higher. This rate has been in place for several years.

Exports

Faced with stiff competition from imported poultry and low prices locally, some Saudi poultry producers have in recent years turned to exports. Saudi Arabia's broiler meat exports (whole and parts) were estimated at 20,000 metric tons annually based on information provided by Al-Watania poultry farm, the leading Saudi poultry producer. In 2001, the firm reportedly exported 18,000 mt of broiler meat mainly to GCC countries (Qatar, Bahrain, Kuwait, U.A.E. and Oman) and Yemen of which 60 to 70 percent goes to the United Arab Emirates. According to Al-Watania, the firm is better off marketing its products locally, but its exports are aimed at protecting the local chicken market from the Brazilian/French price war that could have a devastating effect on the local industry.

Distribution Channel:

The Kingdom has an extensive infrastructure. Poultry producers and importers have generally adequate storage facilities including refrigerated trucks and cold storage.

Poultry meat and products are available in both wholesale and retail outlets throughout the Kingdom. Major poultry farms and importers sell their products either directly to the consumers through their own nation-wide retail outlets or through poultry wholesalers. Consumers may purchase poultry meat in cardboard boxes containing ten chickens from wholesalers or on a piece-by-piece basis from retailers and supermarkets. Commercial customers buy their poultry supplies either from the importer/distributor, poultry farms, or both.

Most of the imported broilers meat is sold to restaurants and catering companies while the majority of the locally grown chickens are consumed by the household consumer (mostly Saudis). The Saudi Government requires catering companies to use only locally produced chicken when catering to government institutions such as the military or government-owned hospitals.

Many major poultry producers are vertically integrated with other poultry related businesses. They produce feeds, chicken, process chicken and sell them directly to customers through their own retail outlets or through wholesalers. There are now several poultry producers that operate their own chicken fast food outlets. Al-Fakieh poultry, the second largest poultry farm, opened its first outlet as Taza Barbecue Chicken in 1990 and now has outlets throughout the Kingdom and several branches in Arab and some Asian countries. The firm has one outlet in the U.S. in Chicago, located on Wabash street downtown Chicago.

END OF REPORT